

Message Text

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ACTION EA-14

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 DRC-01 /092 W

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R 140430Z JUN 74

FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 8200

INFO AMEMBASSY CANBERRA

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EO 11652: NA

TAGS: EFIN

SUBJ: STOCK MARKET TAKES SIGNIFICANT DOWNTURN

SUMMARY: THE NEW ZEALAND STOCK MARKET REGISTERED ITS MOST STARTLING DROP IN THE 17 YEARS ITS LEADING INDEX HAS BEEN IN EXISTENCE. REFLECTING TIGHT LIQUIDITY, CONCERN FOR FALLING FOREIGN EXCHANGE RESERVES, AND SOME BUSINESS DISSATISFACTION WITH THE RECENTLY PRESENTED BUDGET, IT DOES NOT HOWEVER APPEAR TO REPRESENT A REAL COLLAPSE OF CONFIDENCE AND THE BASICALLY SOUND POSITION OF THE ECONOMY MAY LEAD TO A REVERSAL IN THE NEAR FUTURE.

END SUMMARY.

1. NEW ZEALAND BUSINESS PRESS ADDED "BLACK THURSDAY" TO ITS LEXICON IN THE WAKE OF "PROBABLY THE BIGGEST EVER ONE-DAY SHARE MARKET FALL RECORDED IN THIS COUNTRY".

2. A N.Z. UNITED INDEX OF ACTIVELY TRADED SHARES DROP OF ALMOST 13 POINTS REPORTEDLY IS THE LARGEST SINCE THE INDEX WAS ESTABLISHED IN 1957. STOCKS OF BLUE CHIP COMPANIES WERE PARTICULARLY HARD HIT (I.E. FELTEX DOWN 26 POINTS AND NZ FOREST PRODUCTS AND COMALCO DOWN LIMITED OFFICIAL USE

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16 AND 15 RESPECTIVELY). BROKERS HAVE BEEN PREDICTING

A FALL FOR SOME TIME, CITING GLOOMY ECONOMIC NEWS AS THE REASON. THEY WERE NEVERTHELESS SURPRISED BY THE SUDDEN AND RELATIVELY DRAMATIC DROP. OF 80 STOCKS TRADED THROUGHOUT THE COUNTRY 77 REGISTERED LOSSES RANGING FROM 1 TO 26 POINTS, MOST FALLING IN THE 3 TO 8 POINT SPREAD.

3. BROKERS POINT TO RISING INTEREST RATES AND TIGHT LIQUIDITY, THE ACCELERATING PACE OF INFLATION AND THE PROSPECT OF BALANCE OF PAYMENT PROBLEMS AS THE FACTORS CONTRIBUTING TO INVESTOR PESSIMISM. ONE BROKER POINTS TO A FLOOD OF CASH ISSUES DURING THE LAST WEEK DRAWING ABOUT US\$30 MILLION OFF THE MARKET. A RELIABLE SOURCE TOLD THE EMBASSY COMMERCIAL OFFICER THAT HE WOULD NOT RULE OUT THE POSSIBILITY OF POLITICALLY INSPIRED MANIULATION DESIGNED TO EMBARRASS THE GOVERNMENT DURING THE CURRENT PALRIAMENTARY DEBATES ON THE BUDGET.

4. FINANCE MINISTER ROWLING, COMMENTING ON THE MARKET MOVE EMPHASIZED THE UNDERLYING STRENGTH OF THE ECONOMY AND STATED HE KNOWS OF NO ECONOMIC FACTORS WHICH HAVE CHANGED TO THE POINT WARRANTING SUCH A DROP. HE LOOKS WITH CONFIDENCE TO A RETURN OF MARKET STABILITY.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MARKETS, BUDGETS, SECURITIES MARKETS, FOREIGN EXCHANGE HOLDINGS, STOCKS (SECURITIES), MARKET SHARE REPORTS, INTEREST RATES, BALANCE OF PAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 14 JUN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: izenbei0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974WELLIN01841
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740154-0590
From: WELLINGTON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740642/aaaabjuk.tel
Line Count: 84
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: izenbei0
Review Comment: n/a
Review Content Flags:
Review Date: 09 JUL 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 JUL 2002 by elyme>; APPROVED <21 FEB 2003 by izenbei0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: STOCK MARKET TAKES SIGNIFICANT DOWNTURN SUMMARY: THE NEW ZEALAND STOCK MARKET REGISTERED ITS MOST
TAGS: EFIN, NZ
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005